

Message Text

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ORIGIN TRSE-00

INFO OCT-01 NEA-10 ISO-00 EB-07 L-03 COME-00 CIAE-00

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DRAFTED BY TRSY/OS MFIELD/IMW

APPROVED BY EB/IFD/OMA:CCCUNDIFF

TREAS/OS D FOSTER

NEA:MURRAY

TREAS/OS L ATLAS

EB/IFD/OMA:TFORBORD

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R 140053Z JUL 76

FM SECSTATE WASHDC

TO AMEMBASSY TUNIS

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E.O. 11652: DGS TAGS: EFIN

SUBJECT: PROPOSED U.S.-TUNISIA INCOME TAX TREATY

REF: TUNIS 4596

1. PESSIMISTIC ASSESSMENT OF TREATY PROSPECTS BY GOT

REPORTED REFTEL SOMEWHAT SURPRISING.

DURING DISCUSSIONS IN WASHINGTON SEPTEMBER 1975 THERE

APPEARED TO BE GOOD BASIS FOR REACHING AGREEMENT IN

SUBSTANCE, AND TUNISIAN DELEGATION REPEATEDLY MENTIONED

THAT THEY WERE FLEXIBLE ON DRAFTING THE LANGUAGE IF

AGREEMENT WAS REACHED IN PRINCIPLE. ALTHOUGH REVIEW OF

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DRAFT WAS NECESSARILY PRELIMINARY AT THAT TIME,

PRINCIPAL DIFFERENCES APPEARED TO BE THE WITHHOLDING
RATES AT SOURCE ON DIVIDENDS AND ROYALTIES AND THE
DEFINITION OF ROYALTIES, WHICH ARE NEGOTIABLE ISSUES.
TUNISIANS WERE UNDERSTANDABLY DISAPPOINTED THAT US DOES
NOT GRANT TAX-SPARING CREDITS OR EXEMPT FOREIGN SOURCE
INCOME, WHICH ARE NOT NEGOTIABLE ISSUES, BUT INDICATED
THAT THEY WERE AWARE OF THIS SITUATION BEFORE COMING
TO WASHINGTON AND ACCEPTED IT, ALBEIT RELUCTANTLY.
ON THE OTHER HAND THEY FOUND US FOREIGN TAX CREDIT
MORE GENEROUS THAN EXPECTED IN THAT US CORPORATIONS
OWNING 10 PERCENT OR MORE OF TUNISIAN CORPORATIONS MAY
CREDIT AGAINST THE US TAX ON DIVIDENDS FROM THE TUNISIAN
CORPORATIONS NOT ONLY THE DIVIDEND WITHHOLDING TAX BUT
PART OF THE UNDERLYING TUNISIAN CORPORATE TAX .

2. TREASURY WOULD LIKE TO PURSUE DISCUSSIONS AND IS
WILLING TO USE GOT DRAFT AS BASIS FOR DISCUSSIONS
PROVIDED THAT GOT UNDERSTANDS AND ACCEPTS THAT US CANNOT
GIVE UP ITS RIGHT TO TAX US CITIZENS AND RESIDENTS,
INCLUDING US CORPORATIONS, ON THEIR WORLDWIDE INCOME
SUBJECT TO A CREDIT FOR FOREIGN TAXES ACTUALLY PAID ON

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FOREIGN INCOME BUT NOT A TAX-SPARING CREDIT FOR TAXES
WAIVED BY THE FOREIGN GOVERNMENT.

3. COPIES OF US INCOME TAX TREATIES RECENTLY SIGNED
WITH ISRAEL AND EGYPT AIRPOUCHED. US HAS NO SUCH TREATY

WITH LEBANON. KISSINGER

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